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Christopher Gulock, AICP


City of Detroit

CITY COUNCIL

LEGISLATIVE POLICY DIVISION
208 Coleman A. Young Municipal Center
Detroit, Michigan 48226
Phone: (313) 224-4946 Fax: (313) 224-4336

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Marcel Hurt, Esq.
Kimani Jeffrey
Edward King
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TO: Detroit City Council

FROM: David Whitaker, Director
Legislative Policy Division 

DATE: June 27, 2022

RE: Tax Abatements Economic Impact Study

In a memo dated June 22, 2022, Councilmember Latisha Johnson posed several questions to the Legislative Policy Division (LPD) and DEGC related to a Tax Abatements.

In the memo, Councilmember Johnson asked the following questions:

1. Has LPD or the DEGC done an economic impact study on any past tax abatements? I am interested in knowing the number of jobs that were created along with the overall economic impact.
2. Are there any development projects that are now paying the increased tax amount after their abatement has expired? If so, please provide a list of them.
3. How many abatements were received from the State for Hudson's site and in what amount?

This report is our response to this inquiry.

Questions and answers

1. Has LPD or the DEGC done an economic impact study on any past tax abatements? I am interested in knowing the number of jobs that were created along with the overall economic impact. Please contact us if we can be of any further assistance.

LPD: In 2017, at the request of Councilmember Benson, Detroit Economic Growth Corporation (DEGC), Detroit Brownfield Redevelopment Authority (DBRA), Detroit Housing Revitalization Department the Office of Chief Financial Officer (OCFO) and the Civil Rights and Inclusion

Office (CRIO), provided an update on the status of the City of Detroit's Brownfield Plans and Tax Abatements. In the document dated July 3, 2017, the following was reported:

For the 27 approved Brownfield Plans that received only Single Business Tax ("SBT") or Michigan Business Tax ("MBT") credits. The total capital investment proposed for these Plans is \$554,452,213, and 3,409 jobs are projected to be created by these Plans. The total value of approved SBT and MBT credits is \$53,000,816. SBT/MBT credits are wholly funded by the State of Michigan, and capital investment and job verification for SBT/MBT credit Plans is performed by the Michigan Economic Development Corporation ("MEDC").

For the 35 Brownfield Plans approved during this period which include Brownfield Tax Increment Financing ("TIF"). The total capital investment proposed for these Plans is \$1,049,993,854. The approved maximum TIF capture from these 35 Brownfield Plans from all taxing authorities for the life of the Plans is \$165,860,458. Certification of TIF-eligible costs is performed by the DBRA. To date,¹ certified costs for these projects total \$15,743,568, and total TIF reimbursement paid to these projects is \$1,930,434. 3,271 jobs are projected to be created by these Plans. Job verification for TIF Plans is performed by the City of Detroit Office of Civil Rights, Inclusion, and Opportunity. 14 of these 35 TIF Plans also include a SBT/MBT credit, totaling \$52,369,532. Capital investment for the SBT/MBT credit is verified by the Michigan Economic Development Corporation ("MEDC").

Tax Abatements that have been analyzed and underwritten by the DEGC from 2015 through 2017. This reporting covers approved Abatements the DEGC has analyzed, which include PA 255 Commercial Facilities Exemptions, PA 198 Industrial Facilities Exemptions, PA 146 Obsolete Property Rehabilitation Exemptions, PA 328 New Personal Property Exemptions, PA 210 Commercial Rehabilitations Exemptions, and PA 376 Michigan Renaissance Zone Exemptions.

Based on DEGC's underwriting and the proprietary impact model, the average length of the 55 approved Abatements is 11 years, with a total estimated abatement value of \$53,043,667. The City is projected to receive net positive revenue of \$78,311,836 from these projects.

In terms of employment projections and income tax payments, the Civil Rights and Inclusion Office ("CRIO") and Housing Revitalization Division ("HRD") report that projects receiving incentives proposed to create 2,265 jobs between 2015 and 2017. Over the same period, these projects report that 2,661 reported jobs have been created (117.5%), with 892 of these jobs reported to be held by Detroit residents. With respect to the total income taxes paid to the City, we were not able to produce an estimate due to legal restrictions on income tax data. Per the Office of the Chief Financial Officer ("CFO"), "The City Income Tax Act, Public Act 284 of 1964, MCL 141.674(1) makes all information acquired in administering taxes confidential ...²Therefore, the Office of the CFO is not able to confirm individual estimates or individual self-reported information without proper documentation (i.e., power of attorney)."

¹ This is as of the date of the memo, which was July 3, 2017.

² . Sec. 74 - Subsection (1) Information gained by the administrator, city treasurer or any other city official, agent or employee as a result of a return, investigation, hearing or verification required or authorized by this ordinance is confidential, except for official purposes in connection with the administration of the ordinance and except in accordance with a proper judicial order.

2. Are there any development projects that are now paying the increased tax amount after their abatement has expired? If so, please provide a list of them.

LPD: We posed this question to the DEGC, and they reported the following:

1514 Washington Blvd – Claridge House

Vacancy Rate – 11.2%

Taxes

2021 Total Assessed - \$1,138,800

Tax Amount - \$63,976.58

DEGC also reported on the Dakkota Project at the site of the former Detroit Kettering High School:

At part of a competitive site project, Detroit landed the Dakkota integrated systems Project, which produces instrument panels to support Stellantis operations at their new Mack facility.

Dakkota committed to create 419 new jobs on the site within 3 years. The jobs will include 369 hourly employees and 50 salaried employees. Approximate investment is estimated at \$38 MM.

Detroit Public Schools Received

- \$2.6MM in Cash for sale of former Kettering High School (situated on approx. 34 acres) to the City of Detroit*

City of Detroit Received

- 34.4 acres of land, of which, 18 acres was sold to Dakkota Integrated Systems and 16.2 acres was retained for future development.*
- Dakkota’s Commitment of 419 Jobs (prioritized for Detroit Residents)*
- Estimated \$20.4MM in net benefits over 30 years (includes majority income tax, property tax and other revenues)*
- Newly constructed 600,000 square foot jobs producing light manufacturing facility*

Dakkota Integrated Systems Received

- 18.1 acres to construct a 300,000 square foot building*
- NMDC Renaissance Zone*
- PA 198 Tax Abatement*
- Access to Detroit Talen Pool*

Status Update

- Dakkota created 716 new jobs (80% Detroit Residents)*
- Dakkota generated \$78,462.10 new property tax revenue in 2021*

3. How many abatements were received from the State for Hudson's site and in what amount?

LPD: From the State of Michigan, the developer (Bedrock) in 2018 received approval of an incentive (not an abatement) under Public Act 46 of 2017,³ which modified the Brownfield Redevelopment Act, by creating a provision for a “Transformational Brownfield Plan,” which is a brownfield plan designated by the local governing body and the Michigan strategic fund, based on the extent of brownfield redevelopment and growth in population, commercial activity,

³ (MCL 125.2652 et seq.) & adds secs. 13c & 14a.

and employment resulting from the plan, will have a transformational impact on local economic development and community revitalization.

Primarily Bedrock was awarded a TIF capture by for the following:

The new methods that the transformational brownfield legislation will allow Bedrock to recoup a portion of the total cost of the projects it includes in its Transformational Brownfield Plan (TBP)⁴ through the following reimbursement mechanisms:

- State income tax generated by residents living in the TBP properties for 20 years (50%)
- State income tax generated by employees working in TBP properties for 20 years (50%)
- State income tax on TBP construction labor
- Exemption from State sales tax on TBP construction materials

TIF Capture for the Hudson’s Site -The Low Estimate

HUDSON'S SITE	Allocation	Percent of Reimbursement to Developer	Percent of Reimbursement of Overall Capture
New construction	\$164,121,801	29.4%	28.3%
Total reimbursement to the Developer	\$164,121,801	29.4%	28.3%
Authority Administrative Costs	\$972,655	0.2%	0.2%
State Brownfield Development Fund	\$6,036,994	1.1%	1.0%
Local Brownfield Development Fund	\$0	0.0%	0.0%
TOTAL ESTIMATED COSTS	\$171,131,450	30.7%	29.5%

**Based on no contingency as recorded on Bedrock’s TBP TIF table spreadsheet.*

TIF Capture for the Hudson’s Site – Max Estimate with a 15% Contingency to the Developer

HUDSON'S SITE	Allocation	Percent of Reimbursement to Developer	Percent of Reimbursement of Overall Capture
New construction	\$164,121,801	25.6%	24.8%
15% Contingency	\$24,618,270	3.8%	3.7%
Total reimbursement to the Developer	\$188,740,071	29.4%	28.5%
Authority Administrative Costs	\$972,655	0.2%	0.1%
State Brownfield Development Fund	\$6,036,994	0.9%	0.9%
Local Brownfield Development Fund	\$0	0.0%	0.0%
TOTAL ESTIMATED COSTS	\$195,749,720	30.5%	29.5%

Conclusion

Although the information provided by the Administration is somewhat insightful in regard to reporting on the utility and the performance measures of the City of Detroit’s incentive programs. Most of the data is now five years old and Council may want to ask the City agencies that monitor and report on the performance of the recipients of incentives (CRIO and HRD), to provide more up-to-date, verified data to your Honorable Body.

Please contact us if we can be of any further assistance.

⁴ More than half of the tax capture of this project will be borne by the state of Michigan.